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Chief Executive Officer

March 2, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
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From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum contains a pursuit of position on a Budget Conference Committee item relating to the Governor's proposal to eliminate redevelopment agencies and a pursuit of position on a budget item relating to special elections reimbursement.

Pursuit of County Position on a Budget Conference Committee Item

As reported on January 12, 2011, the Governor's FY 2011-12 January Budget proposes to eliminate Redevelopment Agencies (RDAs) by prohibiting additional contract obligations, retiring existing RDA indebtedness and reallocating property tax revenues to schools, cities, counties, and non-enterprise special districts. In FY 2011-12, the Governor's proposal would shift an estimated $5.2 billion in property tax increment revenues, including: $2.2 billion to retire RDA debts and contractual obligations in accordance with existing payment schedules; $1.1 billion to agencies based upon negotiated agreements and State statute (as an amount equal to the pass-through payments that would otherwise be received); $1.7 billion to offset State General Fund costs for Medi-Cal ($840.0 million) and trial courts ($860.0 million); and $210.0 million to cities, counties, and special districts proportionate to their current share of the countywide property tax allocation.

In FY 2012-13 and thereafter, the non-obligated portion of the RDA tax increment (revenue not needed for outstanding debt and contractual obligations) would flow instead to K-14 schools ($1.0 billion), cities ($490.0 million), counties ($290.0 million), and non-enterprise special districts ($100.0 million). The Governor also proposes a new option for funding economic development at the local level by calling for a constitutional amendment to provide for 55.0 percent voter approval for limited tax increases and bonding against local revenues for development projects similar to those currently funded through redevelopment.

As reported in the February 22, 2011 Sacramento Update, the Senate Budget Committee adopted the Governor's proposal to eliminate RDAs for State General Fund savings of $1.7 billion. The Assembly Budget Committee adopted the $1.7 billion in savings for this proposal, but indicated that the final Conference Committee budget could achieve savings through reforms in lieu of eliminating redevelopment agencies. The Budget Conference Committee is considering a counterproposal introduced by ten large cities.

Proposal for a 10-Year Extension of Projects In Lieu of Eliminating Redevelopment Agencies.

The FY 2011-12 Budget Conference Committee agenda of February 23, 2011, includes a counterproposal by Mayors from ten of the largest cities that indicate it could result in $1.7 billion for the State General Fund. The draft proposal was presented to the Governor and the legislative leadership to reform redevelopment as an alternative to the Administration's proposal to eliminate RDAs. According to the Budget Conference Committee's analysis, a constitutional amendment may be needed to achieve the proposed reforms. To obtain the $1.7 billion, the State would sell bonds, which would be repaid over 30 years at a cost of approximately $150.0 million per year of RDAs' tax increment. About $50.0 million plus future growth would be made available for education or other State purposes. In exchange, existing RDAs would receive 10-year extensions on existing projects and the proposal would change the formula for pass-through revenue to schools and counties beginning in FY 2018-19. Mayors from the Cities of Anaheim, Fresno, Long Beach, Los Angeles, Sacramento, San Diego, San Francisco, San Jose, Santa Ana, and Oakland have signed on to a letter accompanying the proposal to the Governor. <u>This proposal has not yet appeared in trailer bill language</u>.

According to the Sacramento advocates, this proposal appears to be an option under consideration to help address the State budget deficit. Based on limited information available and broad assumptions, if the cities' proposal for a 10-year extension is approved, **we estimate that the County General Fund could lose over $4.5 billion**

($452.0 million annually for 10 years) based on the current net loss to redevelopment projects within the County. The State stands to lose over $25.0 billion over the same period for their contribution to schools. **Additionally, this proposal also would divert local property tax revenues from County services, including the Fire District, Flood Control District, and the County Public Library, estimated at approximately $780.0 million ($78.0 million per year for 10 years). Therefore, consistent with existing Board-approved policy to oppose any redevelopment legislation which would cause the County to lose revenues, limit or repeal provisions of the Community Redevelopment Reform Act (AB 1290 - Chapter 942, Statutes of 1993), or allow RDAs to extend the life of projects beyond the statutory time frames established in AB 1290, the Sacramento advocates will oppose this or similar proposals.**

Opposition to the cities' proposal is also consistent with County's opposition of a FY 2009-10 State Budget proposal that allowed a one-year extension on all redevelopment projects statewide without having to make a finding of blight in exchange for an estimated $1.35 billion transfer of property taxes to fund schools. Furthermore, opposition to this measure is also consistent with County's opposition to: 1) SB 1112 (Oropeza) of 2010, which proposed to extend the time limit of a redevelopment plan and receipt of property tax increment for an additional 10 years; 2) SB 1771 (Romero) of 2008, which proposed to extend City of Industry redevelopment projects by 10 years and eliminate the requirement that a RDA show remaining blight in order to extend a project; and 3) AB 921 (Daucher) of 2005, which proposed to allow redevelopment projects to be extended for an additional 25 years without making a new finding of blight.

In addition, the recommended County position is consistent with the Board's directive of July 21, 2009 to authorize the County Counsel's Office to litigate the one-year extension approved in ABX4 26 (Chapter 21, Statutes of 2009), a budget trailer bill which directed $2.05 billion from redevelopment agencies to the State.

Pursuit of County Position on a Budget Item

The Governor's Budget proposes to conduct a June 2011 Special Election to ask for voter approval for an extension of the temporary tax increases adopted by the State in February 2009.

According to the Registrar Recorder/County Clerk (RR/CC), costs of conducting a special statewide June election could range from $16.0 million to $20.0 million. These costs are not budgeted since it is an unscheduled election. Additionally, the County recently conducted two special vacancy elections this year to fill vacancies in the State

Senate Districts 17 and 28. The RR/CC estimates that these elections will add an additional $4.0 million in unanticipated expenses to the County. Congresswoman Jane Harman's recent resignation will require a special election in Congressional District 36. While there may be an opportunity to consolidate that election with potential special statewide June election, if no candidate receives a majority of the vote, a run-off election will need to be scheduled in August 2011. The RR/CC indicates that special elections add considerable general fund expenditures that may necessitate curtailments of other essential services within the department.

Therefore, based on policy to support proposals to provide the County with reimbursement for the costs incurred in conducting special elections, the Sacramento advocates will pursue proposals through the State Budget or specific legislation to support the appropriation of funding for full reimbursement of costs incurred by counties for conducting special elections called by the Governor.

We will continue to keep you advised.

WTF:RA
MR:IGEA:sb

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
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